



King County
Metropolitan King County Council
Budget & Fiscal Management Committee

Agenda Item No.: 4

Date: May 13, 2010

Proposed No.: 2010-0273

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STAFF REPORT

SUBJECT:

This item is a briefing on Proposed Ordinance 2010-0273 which, if approved by the Council, would send a measure to the ballot allowing voters to decide whether to increase the sales and use tax in King County. The Executive has transmitted this proposal, under authority granted by RCW 82.14.450, due to looming deficits facing the county's general fund. The proposal, if approved by the Council and the voters, would increase the countywide sales and use tax from 9.5% to 9.7% on most purchases. The majority of spending from this tax, if approved, will be focused on the criminal justice system within the County's general fund.

BACKGROUND:

The King County Budget:

King County's general fund budget was adopted at \$628 million in 2010, compared to \$627 million in 2009. However, in order to balance the 2010 budget, the County had to cut approximately \$56 million of costs that would have been incurred to maintain services at 2009 levels. This 2010 budget balancing occurred after previously cutting \$93 million in the 2009 budget and approximately \$60 million in the 2008 budget. Many of these cuts came in the areas of human service, public health, capital improvement and other key county programs that were unable to be maintained at then current levels.

Follow-up Request:

Councilmembers at the April 29th committee meeting asked for a breakdown of the various cost-drivers that comprise what is known as the county's structural gap. At the time of the May 4th Committee meeting that work had yet to be completed. We now have the following information available.

Approximately 70% of the General Fund budget is related to personnel costs. This cost has historically increased by about 4.8% per year. The remainder of the general fund grows annually at 2.5%.

Of the growth that is related to personnel costs:

- **Salaries:** Salary growth is primarily attributable to step raises (2.4% for eligible employees) and Cost of living adjustments (COLA). From 2001-2009 this growth increased at 4.3% per year. This represents almost 70% of the cost growth within the personnel cost increases.
- **Benefits:** The growth of employee medical benefits has been well documented. From 2001-2009 the growth rate for the employee benefit package has averaged 6.4% per year. This increase represents 11.8% of the personnel cost increases.
- **Retirement:** The State of Washington sets the retirement contribution rates for the various employee retirement plans. From 2001 to 2009 this increase has averaged 6.5%. This increase represents 3.9% of the personnel cost increases.
- **Other:** this category is a catch-all for other employee related costs like industrial insurance, FICA, overtime, etc. From 2001-2009 this category grew by an average of 5.4%. This represents 14.8% of the cost growth within the personnel cost increases.

Table 1: Personnel Cost Growth

Item	2010 Percentage of Personnel-Related costs	2001-2009 Growth Rate
Salaries	69.5%	4.3%
Benefits	11.8%	6.4%
Retirement	3.9%	6.5%
Other (Ind. Insur., FICA, Overtime)	14.8%	5.4%
Total	100.0%	4.8%

Additionally, there was a question regarding the additional costs that come from having interest-arbitration eligible employees. Council staff followed up with the budget office and it turns out that since 1998, regular and overtime pay increases for interest arbitration eligible employees have not been higher than other employees in the general fund. With adoption of new contracts (sheriff's deputies and corrections officers) in 2009, that trend is not likely to continue over the next several years.

Current economic projections identify a general fund deficit in excess of \$60 million for 2011 and an additional deficit of \$80 million for 2012. This creates a total deficit of \$140 million over the next two years in the fund that provides for many of the mandated services for county government, including the County's criminal justice system. In 2010, approximately 76 percent of the County's general fund budget is dedicated to the criminal justice system – this is up from 67 percent in 2001.

As a result, the County's ability to contribute general fund money to services besides criminal justice, such as public health functions, continues to diminish. Additionally, human service programs were almost completely eliminated from the County's general fund in preparation of the 2010 budget. Approximately \$850,000 in general fund support

for domestic violence, sexual assault and legal assistance services were maintained on a one-time basis.

Sales Tax Authority

For many years, counties across Washington have had the authority to go to the voters and request that a criminal justice sales tax be implemented. Such a criminal justice tax could increase the sales tax rate by as much as 3/10^{ths} of 1%. To date, five counties have implemented this tax.

Until recently, however, the state statute authorizing this tax authority has required that the use of the tax be solely for new or expanded services. This could have created the situation of having to allocate funding to new or expanded programs, while existing, effective programs were reduced or eliminated. During the 2010 legislative session the Washington Legislature passed, and the Governor signed, Engrossed Substitute House Bill (ESHB) 3179 which removed the non-supplanting language. This change allows counties to use this revenue source to maintain existing services, subject to voter approval.

Proposed Ordinance 2010-0273 would forward a proposition to the voters of King County that, if approved by voters, would allow an increase the Sales and Use Tax by two tenths of one percent (0.2%). Key facts about the sales tax authority proposed by the Executive are as follows:

- Following state law, the proceeds would be split between King County and the cities in the county. King County would retain sixty-percent (60%) and the cities retain forty-percent (40%).
- The state law also establishes that a minimum of 1/3 of the taxes collected must be used for criminal justice (both the county portion and the city portion).
- A 2/10th of 1% increase to the sales tax is expected to generate approximately \$80 million in 2011. The cost to the typical household would be \$56 per year.¹
- Of the \$80 million, the County would keep \$47 million and cities would receive \$32 million. The cities' portion is allocated based upon population. The County's estimate of that distribution to cities is contained as Attachment 3 to this staff report.
- The Executive has included in his proposal a detailed spending plan that would use the majority of the County's proceeds for criminal justice related expenses.

ANALYSIS:

Proposed Ordinance 2010-0273 would put the question of a 2/10th of one percent sales and use tax increase to the voters of King County. If approved, this tax would increase the sales tax rate for most taxable purchases in the county to 9.7%.

If the voters approve the sales tax proposed by the County Executive, the County would still face deficits for 2011 and 2012. Specifically, the sales tax would generate approximately \$47 million in 2011. With the County facing a \$60 million deficit for 2011

¹ King County Office of Economic & Financial Analysis 2010.

and the new tax bringing in \$47 million, an estimated \$10 million gap would still exist. Therefore, the County will still need to address the deficit, either through finding more inexpensive ways of operating or continuing to reduce service levels.

Use of Proceeds:

As noted previously, State law requires that at least one third of the proceeds from this tax be spent on criminal justice activities. However, the proposal from the executive includes a spending plan (included as an attachment to the Executive's transmittal letter – Attachment 2) that would dedicate approximately seventy percent (78%) of proceeds to direct criminal justice programs in 2011. In addition the Executive intends to fund human services that benefit the criminal justice system like domestic violence, sexual assault and legal advocacy programs in 2011. In addition to funding criminal justice programs and services, the Executive proposes to spend the following amounts of the proceeds on:

- Public Safety & Criminal Justice: 33.3 million in 2011
 - Sheriff: \$9.4 million
 - Prosecuting Attorney: \$5.0 million
 - Office of the Public Defender: \$4.3 million
 - Superior Court: \$4.3 million
 - Judicial Administration: \$2.0 million
 - District Court: \$2.0 million
 - Adult & Juvenile Detention: \$4.7 million
 - Jail Health Services: \$1.5 million
- Major Maintenance of Facilities: \$1.3 million in 2011
- Animal Control: \$0.8 million
- Elections/ DDES/ Security Screening: \$0.7 million in 2011
- Public Health—Seattle & King County: \$3.3 million in 2011
- Department of Community and Human Services: \$3.2 million in 2011
- Office of Emergency Management: \$0.2 million in 2011
- Mental Illness and Drug Dependency (MIDD) Supplantation: \$5 million in 2013, \$10 million in 2014, and \$16 million in 2015

In reviewing the final item in the above list, it is important to remember that the County is currently supplanting in excess of \$13 million from the MIDD. All of these programs benefit the criminal justice system. The County's ability to continue this supplantation begins to expire in 2013. This proposal reserves funds to allow for the rollback of the MIDD supplantation without endangering the programs currently being supplanted. These funds should also be considered part of the criminal justice funding under the Executive's proposal.

Budget Planning for Criminal Justice

As part of the preliminary planning process for the 2011 budget submittals, the Executive asked the separately elected criminal justice agencies to identify cuts that would be necessary in their respective agencies if the \$60 million in necessary cuts were allocated equally across the agencies. Such a cut would result in a reduction of approximately 12 percent compared to what it would take to provide 2010 service levels in 2011.

The information on the potential 12 percent reductions was submitted to the Executive on April 9th. A special meeting of the Budget & Fiscal Management Committee was held on April 14th to allow the separately elected leaders of the County's criminal justice agencies to present their findings to the Council. At that meeting the Council heard the following potential reductions to public safety budgets:

- **King County Sheriff's Office:**
 - The Sheriff noted that a reduction of 82 positions including 70 sworn personnel who are primarily responsible for property crime investigations, drug investigations, school resource officers, storefront deputies, violent crime and drug task force officers, fugitive task force duties and homeland security duties may be imposed.
 - The Sheriff also indicated that the current level of staffing is far below average for Washington cities. Currently King County Sheriff's Office has 0.77 officers per 1,000 residents compared to other Western Washington cities who average 1.80 officers per 1,000 residents.
 - The Sheriff also told the Committee that the per capita cost of the KCSO is \$133 compared to the average for other Washington cities of \$360.

- **Superior Court & Judicial Administration:**
 - The Court would reduce supervision of juvenile offenders. The Court noted that this would reduce the contact standards with offenders and noted that high-risk youth supervised under lower standards tended to commit more frequent or violent crimes.
 - The Court would also eliminate family court services, a program that allows clients and the Court to settle family law cases safely and promptly by providing mediation and evaluation services. Without family court services, there will be more trials, longer waits and delayed calendars, and judges may not have access to domestic violence or other assessments when asked to rule on cases.
 - The Court would also eliminate facilitators, early resolution managers, specialized attorneys for key civilian volunteers, the step-up program (a program that is dedicated to reducing teen violence), customer service staff, incoming phone call services (people seeking information would need to use the web or come to the Courthouse in person) and reduce the Clerk's office hours.
 - In prior years, the Court has eliminated positions in civil case management, family court services, unified family court and juvenile probation along with saving money by using a more cost-effective method for allocation of interpreters.

- **King County Prosecuting Attorney:**
 - The Prosecuting Attorney (PAO) noted that its target cut is the equivalent of the salary and benefit cost of 36 deputy prosecuting attorneys (DPA) (this represents 22% of the current number of deputy prosecuting attorneys). The Prosecutor further pointed out that taken with the 20 DPAs

cut during the 2009 budget, the number of attorneys in the office will be down over 1/3 in the last three years. This would have the effect of doubling the caseload of those remaining in the office. The increased caseloads will also increase the time necessary for handling of cases. .

- The prosecutor further pointed out that such a level of reduction is the equivalent of the total number of deputies assigned to the Maleng Regional Justice Center, the total number of deputies assigned to the special assault unit and the domestic violence unit, and it approximately 2/3 of the deputies assigned to the County's civil division.

- **King County District Court:**

- The Court noted that probation services, a program for serious domestic violence and driving under the influence offenders would be completely eliminated. Repeat drunk drivers and domestic violence offenders would go without supervision.
- The Relicensing program that helps individuals with suspended licenses once again become licensed drivers would be completely eliminated. This will result in an increase in criminal filings since driving without a license is a criminal offense.
- The Court would also eliminate passport services, a community service that allows approximately 10,000 people per year to get their passports at their local district court.
- The Court also noted that its caseload is on the increase and is currently at its highest level since 2003. This has been absorbed into existing staff through technology improvements.
- The Court also noted that many of these services serve as a diversion to persons who would otherwise be facing more serious offences. This may actually lead to increased costs.

Also at the April 14th BFM special meeting, council staff, and the Director of the Office of Management and Budget presented information to the Council on the overall outlook of the 2011 budget process as well as the steps to reduce costs that have already been undertake over the last several budget cycles. These steps include:

- Use of general fund cash reserves totaling \$90 million. During the years of 2004-2007 the County revenues came in higher than budgeted and expenses were actually lower than budgeted. This allowed the County to bank funds for future years. These reserves reached a high of \$144 million (22% of that year's operating budget). These reserves have been used to reduce the severity of cuts over the last several years.
- Reduction of Building Maintenance costs totaling \$5 million. This deferring of maintenance allowed additional funding to be diverted to public safety services, but is not sustainable over the long-term. Efficiencies in building operations (i.e., reducing hours of HVAC and lighting in county buildings and custodial services) have also been implemented in the last two years and cannot be reduced further without affecting county business operations.

- Elimination of regional voting centers and drop boxes for elections. This is an optional service the County is now meeting its mandate to have in-person voting and relies on voters to mail in their ballots as opposed to using a drop box.
- Reduction in planned safety improvements for Superior Court facilities. The Council identified over \$1 million for immediate safety improvements budget could not sustain the planned level.
- Implemented a \$3.8 million mid-year cut in 2009 to reduce the Assessor, Elections, Council and Executive budgets to preserve vital human service programs. 2010 budgets had a minimum cut of five percent and a maximum cut of 13% in these county agencies.
- In total, the County has eliminated over \$150 million in spending over the last two years. This has resulted in reduced service levels in most areas of the general fund.
- The reduction of \$25 million of general fund to human services since 2006.

While many of these reductions were used to preserve spending on public safety services, they were also primarily one-time actions. Draw-downs of fund balance, reductions of building maintenance, cancelling of capital projects are examples of budget actions that reduce costs. However, they can only be used one-time.

Follow-up Request:

At the April 29th committee meeting, there were a number of questions regarding other counties in the State of Washington. Some Councilmembers expressed questions about other counties that were doing well, while other Councilmembers didn't believe there were very many other counties doing well. Budget Committee staff reviewed the budgets for as many of the 39 other counties that had budget documents available online. The full compiled document is included in the staff report as Attachment 4. A summary of our findings is included below:

- We compiled data on 25 of the 38 other (King excluded) counties. 13 counties did not have sufficient information available online to determine trends in their respective general fund budgets. The largest county without data was Grant County with a population of 86,000. The smallest county without data was Garfield County with a population of 2,250.
- Of the 25 counties we reviewed, 23 adopted general fund budgets that were lower than the prior year. The ranges varied from a 1% reduction in Clallam County to a 15% reduction in Ferry County.
- Two counties Cowlitz and Walla Walla Counties had increased expenditures in 2010. However, Cowlitz had a 7% drop in revenue, so there is likely a significant use of fund balance and Walla Walla has a voter approved levy beginning this year. Island County, after cutting 17% from 2008 to 2009 had an increase in 2010. Staff did not have time to determine how Island County was able to increase its budget in 2010.

- Kitsap County has eliminated 10% of its workforce since 2008. Clark County cut 118 general fund positions mid-biennium (including 56 in law enforcement). Thurston County eliminated 98 positions after doubling the road fund diversion.

Additionally, the Washington State Department of Community, Trade and Economic Development (CTED) conducted a research study in 2007 entitled “County Financial Health and Governance Alternatives Study” which found that:

“All counties, charter and non-charter, are fiscally distressed. It is a matter of degree”

Budget Planning for Human Services

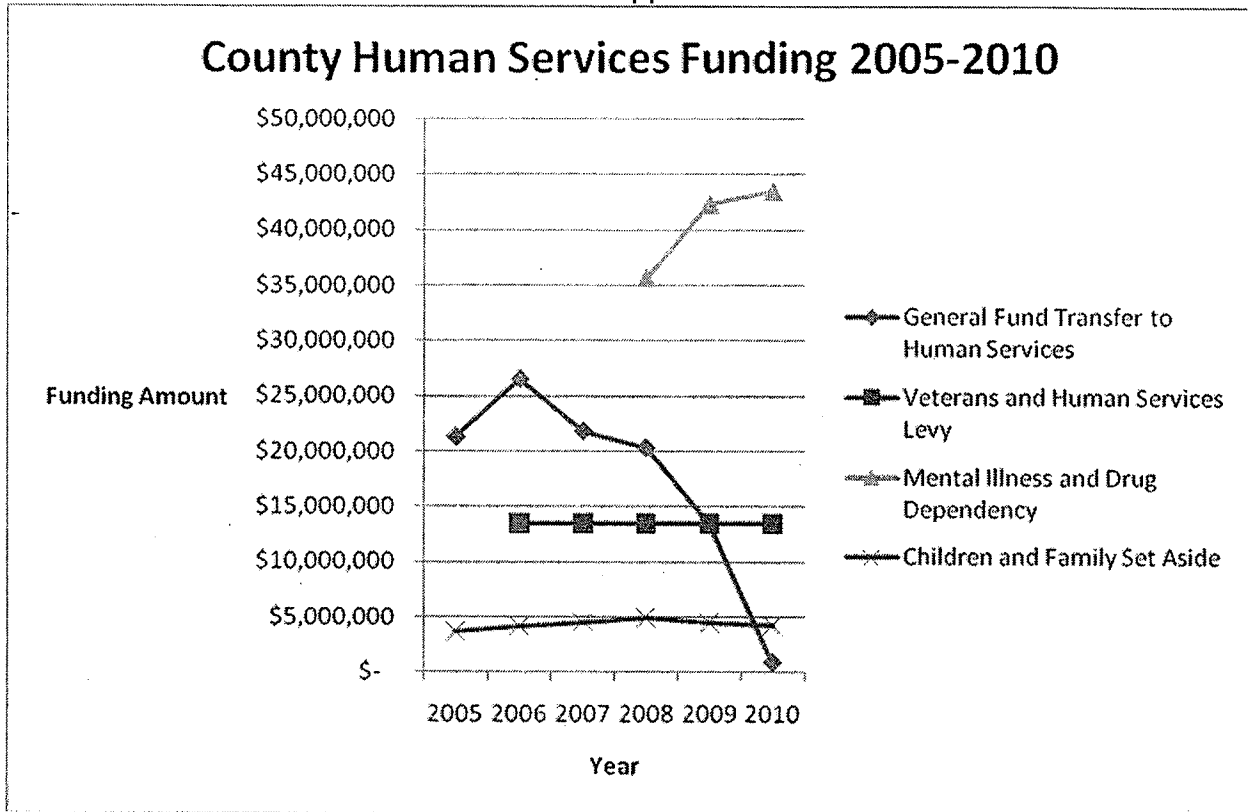
There has also been another major ongoing reduction in spending from the County’s general fund. In 2006, the County’s general fund contributed in excess of \$26 million to regional human service programs. These programs could be food banks, homelessness programs, domestic violence and sexual assault programs or others that allowed key services to be provided throughout the County. There are four major sources of funding for human service programs:

- **The Children and Family Set Aside (CFSA)**
 - Established in 1988, receives a portion (.046 percent) of sales tax revenue. Revenue from the County parking garage is also dedicated to the set aside.
 - Funds prevention and early intervention services for children and families in DCHS and Public Health.
- **Dedicated property taxes or “millage”**
 - In effect since the early twentieth century, a percentage of property taxes set aside to support the County veterans (Vets), mental health (MH), and developmental disabilities (DD) services.
 - 1.5 percent of the regular property tax levy is dedicated to MH and DD (50 percent each), with Vets dedicated funding at .67 percent of the regular levy.
- **The Veterans and Human Services Levy (VHSL)**
 - Passed by King County voters in 2005, generates approximately \$13,300,000 per year (\$0.05 per \$1,000 assessed valuation) for six years.
 - The collection period expires at the end of 2011.
- **The Mental Illness and Drug Dependency (MIDD) sales tax**
 - Authorized by the King County Council in 2007, generates approximately \$40-50 million per year through a one tenth of one percent sales tax.
 - The collection period expires at the end of 2016.
 - MIDD funds are supplanting over \$13 million in lost General Fund in 2010.

In prior years the general fund was also a major contributor to the human service program. However, the 2010 budget includes less than \$1 million for human services, a 97 percent reduction from 2006. 2010 general fund supported services include services

for survivors of domestic violence and sexual assault, and legal advocacy programs. Table 2 illustrates the reduction of general fund support for human service programs over the last several years. However, it should also be noted that the overall funding for human services has increased since 2008 with the addition of the Mental Illness and Drug Dependence (MIDD) sales tax.

Table 2: General Fund Support for Human Services



In 2010, a portion of the general fund reduction support for human services is being backfilled by the Mental Illness and Drug Dependence (MIDD) sales tax revenue and other sources. However, over the next several years, the County's ability to use MIDD to support existing services will roll-back under the current version of state law. As MIDD support is set to decline, the structural funding problems facing the general fund are exacerbated. With projected deficits of \$60 million followed by an additional \$80 million in 2012, it is possible that the County would make an additional \$140 million in cuts only to be faced with eliminating Drug Court and Mental Health Court in 2013.

Employee Data:

The County's general fund has remained relatively unchanged in terms of the number of employees budgeted to support general fund services over the last ten years. Table 3 illustrates the total number of employees supported by the general fund and also highlights the total number of employees dedicated to the County's criminal justice system.

Of note, the number of employees budgeted in 2010 is actually lower than the number budgeted ten years ago in 2001. Also of note, the County's criminal justice budgets made up just over ¾ of the budgeted employees in 2001 and still comprise roughly the same amount of the budgeted FTEs in 2010.

Table 3: General Fund Budgeted Employees

General Fund		Criminal Justice		CJ as % of FTE
Year	FTE	Year	FTE	
2001	4,406	2001	3,379	77%
2010	4,322	2010	3,378	78%
Change	(84)		(1)	

At the April 14th BFM special meeting Councilmembers heard from several agencies (District Court, Sheriff) that the overall demand for services was up. District Court caseloads are at their highest levels since 2003. Councilmembers also expressed a concern that in a recession crime rates will spike. Councilmembers also heard from the Superior Court and the Prosecutor that although caseloads were not necessarily higher, many lower-level cases were not being filed – this is due in large part to filing changes implemented by the Prosecutor to achieve budget reductions in recent years. The remaining cases that are being filed are often more complex and more violent crimes.

Finally, discussed later in the report, is another change related to employment factors. While the overall number of employees is similar to the 2001 employment numbers, those that were receiving a benefit package in 2010 has been dramatically reduced. What this means is that there are either more positions being held vacant or there are positions that are still “authorized” but are not being filled by departments as they try to ease the problems caused by the last several rounds of budget reductions.

National Trends in Health Care Costs:

The number of employees supported by the General Fund has declined by about seven percent since 2001, but costs per employee have grown substantially. Health care costs have been a major factor, with the cost per employee going up a little over 58 percent (an average of 9.6 percent per year) since 2004. Costs for similar health plans in the Seattle area grew by 41 percent during that same period (an average of 7.1 percent per year.) The higher cost growth rate for the county is due, in part, to factors such as higher average age of the workforce (costs are higher for older employees) and a larger number of family members covered under the plan.

King County is not alone in dealing with issues surrounding the cost to provide health care to employees. *Previous staff reports included a table showing data from the Bureau of Labor Statistics regarding overall cost trends in the provision/purchase of pharmaceuticals since 2005. Executive staff provided information on pharmaceutical cost growth from Express Scripts (ESI), the largest pharmacy benefit manager in the*

U.S. Table 4 below has been updated to include this data, as well as the annual percent change in King County's pharmacy costs.

Table 4: Pharmaceuticals

Pharmaceuticals ²			
Year	BLS % Change	ESI Western U.S. % Change	King County % Change
2005	3.54%	13.0%	10.2%
2006	4.37%	9.0%	9.6%
2007	1.26%	8.4%	7.1%
2008	2.20%	5.4%	5.8%
2009	3.35%	3.8%	12.1%
Average	2.94%	7.92%	8.96%

Note that 2010 pharmacy cost growth is expected to significantly decrease in 2010. As a result of changes to the negotiated benefits package, co-pays for generics are decreasing (from \$10 to \$7) while preferred and non-preferred brand medications are increasing significantly (from \$15 to \$30 and \$25 to \$60, respectively). This should provide a much greater incentive for individuals to choose generic drugs, which will help restrict the county's pharmaceutical cost growth. Comparing January through March 2010 to the same period last year, King County's pharmaceutical costs are actually lower by 8 percent.

Additionally, Table 5 shows the same five year period focusing on the overall cost of hospital services. Over this same time period, the County's cost of medical care increased by an average of 9 % annually (overall, not hospital costs shown below).

Table 5: Hospital Costs

Hospital Services CPI ³	
Year	% Change
2005	5.36%
2006	6.39%
2007	6.48%
2008	7.56%
2009	6.76%
Average	6.51%

In aggregate, while the number of employees county-wide receiving benefits has not changed dramatically over the last five years, the costs to provide that level of coverage has increased. Table 6 shows the annual health care costs over five years and the number of employees receiving medical benefits. Without changes to the cost-drivers through lower employee usage, or regulation restricting costs, the County's only alternatives to affecting cost increases will be to reduce the level of coverage or

² King County Office of Economic & Financial Analysis and Executive staff

³ King County Office of Economic & Financial Analysis

increase the costs to employees. Both of these changes would be subject to collective bargaining.

Table 6: Employee Medical Costs

Medical Costs and Covered Employees				
	Total Medical	Percent Change	Benefitted Employees	Percent Change
2009	169,776,414	9%	13,362	-0.44%
2008	156,107,792	13%	13,421	2.10%
2007	138,709,249	6%	13,145	1.71%
2006	130,638,782	11%	12,924	0.35%
2005	118,033,590	7%	12,879	-0.17%
Averages		8.98%	13,146	0.71%

Employee Contributions to Health Care:

Beginning in 2010, the County began a new three-year cycle for employee medical plans. The new plan runs through the end of 2012. Under this new plan employees contribute more towards the cost of their medical coverage through increased co-pays, deductibles and co-insurance. The increased payments amount to an additional \$840 per year for the average employee and bring King County in line with many other public employers throughout the region as shown in Table 7.

Table 7: Employee Medical Contributions

	Port of Seattle	Everett	Pierce County	KingCare SM Gold	Tacoma	State of WA	Seattle	Snohomish	Bellevue
				2010-2012					
Plan Design	14.6%	16.3%	16.3%	16.6%	13.2%	18.3%	17.6%	16.8%	17.5%
Contributions	0.0%	0.0%	0.0%	1.4%	5.8%	5.0%	7.1%	10.7%	13.6%
Totals ¹	14.6%	16.3%	16.3%	18.0%	19.0%	23.3%	24.7%	27.6%	31.0%

Mercer Consulting performed an analysis comparing King County’s 2008 medical costs to the costs of other employers in the Seattle area to determine the effects of a range of demographic factors. Mercer determined that certain demographic characteristics significantly affected the county’s medical costs. Notably, the demographic characteristic with the largest impact on the county’s costs was the high rate of unionization among county employees. The average age of employees, average salary, and percent of employees with dependents also contributed to the county’s higher costs, though these factors had less of an impact.

Mercer’s analysis also found that plan design (deductibles and co-pays) and employee contribution levels (premiums) also contributed to higher costs. However, the analysis did not include 2010 costs, which may be reduced by the significant increases made to employee deductibles, co-pays, etc., to discourage unnecessary medical spending.

